

## Message Text

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ACTION L-02

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FM AMEMBASSY LIMA

TO SECSTATE WASHDC 5785

C O N F I D E N T I A L LIMA 5403

E.O. 11652: GDS

TAGS: BDIS, EIND, PE

SUBJECT: EXPROPRIATION OF GULF DEL PERU; GULF STRATEGY

REF: A. LIMA 5373; B. STATE 139936; C. LIMA 4770

1. J. P. CRITCHLOW, VP, MARKETING FOR GULF OIL-LATIN AMERICA, AND GLENN C. LUCAS, ASSOCIATE GENERAL COUNSEL, BOTH FROM GULF HEADQUARTERS IN CORAL GABLES, ACCOMPANIED BY FORMER LOCAL GULF MANAGER ED MCCAIN, CALLED ON ME JULY 2 TO DISCUSS CURRENT STATE OF PLAY REGARDING POTENTIAL COMPENSATION TO GULF FOR ITS EXPROPRIATED ASSETS HERE.

2. CRITCHLOW SAID THAT GULF HEADQUARTERS IS BECOMING CONCERNED OVER TWO SPECIFIC PROBLEMS WHICH HAVE ARISEN IN REGARD TO THIS CASE: A) FACT THAT DECISIONS RE COMPENSATION ARE NOW IN THE HANDS OF A GOP APPOINTED JUDGE WHO DOES NOT UNDERSTAND TECHNICAL SIDE OF OIL OPERATIONS AND IS APPARENTLY UNDER LITTLE PRESSURE TO REACH FINAL DECISION: AND B) MORE IMPORTANT, BECAUSE OF PENDING EXPROPRIATIONS OF MUCH LARGER GULF ASSETS IN KUWAIT AND VENEZUELA, THE COMPANY AND, ACCORDING TO LUCAS, THE LEGAL ADVISOR'S OFFICE OF THE DEPARTMENT ARE INTERESTED IN THE COMPANY OBTAINING A SETTLEMENT AS CLOSE TO TRUE MARKET VALUE FOR ITS ASSETS AS POSSIBLE.

3. LUCAS EXPLAINED THAT GULF DEL PERU'S TOTAL ASSETS  
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AND INVENTORY AMOUNT TO \$2.5 MILLION, AGAINST WHICH

GULF DEL PERU OWED PETROPERU APPROXIMATELY \$1 MILLION IN OUTSTANDING LIABILITIES. FURTHER, LUCAS SAID THAT SINCE THE COMPANY HAD ITS CONTRACT ABROGATED BY THE EXPROPRIATION ACTION OF THE GOP, THE COMPANY BELIEVES THAT IT SHOULD RECEIVE ADDITIONAL COMPENSATION. NEITHER GULF OFFICIAL HOWEVER BELIEVES THAT THE GOP WOULD BE WILLING UNDER THE PRESENT CIRCUMSTANCES TO MAKE PAYMENTS IN MORE THAN RELATIVELY TOKEN AMOUNTS.

4. BOTH GULF OFFICIALS AND I AGREED THAT GOP HAS RECEIVED S MUCH THIRD WORLD PUBLICITY FORM ITS EXPROPRIATION AS IT COULD EXPECT, AND THAT MANY IN GOP QUARTERS, INCLUDING PETROPERU PRESIDENT FERNANDEZ BACA, WOULD PREFER TO SEE THE PROBLEM SETTLED QUICKLY, AMICABLE, AND QUIETLY, SO AS TO REDUCE ANY FURTHER ADVERSE IMPACT ON PERU'S CREDIT RATING AND THE POSSIBILITY OF PERU'S ATTRACTING FUTURE POTENTIAL FOREIGN INVESTMENT. CRITCHLOW THEREFORE SAID THAT HE THINKS THE TIME IS PROPITIOUS FOR GULF TO MAKE A COUNTEROFFER TO PETROPERU. COUNTERPROPOSAL WOULD BE A "NEW FORMULA" COUCHED IN TERMS ATTRACTIVE ENOUGH THAT THE GOP MIGHT BE WILLING TO SETTLE THIS ISSUE IN THE NEAR FUTURE. BOTH GULF OFFICIALS AGREED THAT IT WOULD NOT BE FEASIBLE TO EXPECT THE GOP TO RENOUNCE THE EXPROPRIATION. I CONCURRED THAT THIS ALTERNATIVE IS NOT TO BE EXPECTED, BUT GIVEN THE CURRENT STATE OF POLITICAL FLUX WITHIN THE GOP, THE GENERALLY MORE MODERATE TONE OF GOP PRONOUNCEMENTS, AND ITS WILLINGNESS TO SETTLE OUTSTANDING DISPUTES, INCLUDING BRANIFF AND POSSIBLY MARCONA, THE TIME NOW IS PROBABLY RIPE FOR A COUNTEROFFER ON THE PART OF GULF WHICH WOULD ENABLE THE GOP TO SAVE FACE, AND SIMULTANEOUSLY ALLOW THE COMPANY TO RECIEVE THE COMPENSATION DUE IT.

5. CRITCHLOW SAID THAT GULF HEADQUARTERS WOULD THEREFORE BE DRAWING UP A COUNTERPROPOSAL FOR PETROPERU'S CONSIDERATION, WHICH, INTER ALIA, WOULD INCLUDE THE SUGGESTION THAT PETROPERU, RATHER THAN THE GOP-APPOINTED JUDGE, MAKE THE FINAL DECISIONS ON THE VALUE OF ASSETS TO BE COMPENSATED. THE COUNTERPROPOSAL WOULD ALSO INCLUDE A GULF PROPOSAL FOR THE POSSIBLE CONSIDERATION OF A NEW CONTRACT BETWEEN PETROPERU

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AND GULF, EXTENDING BEYOND THE TIME-FRAME OF THE ORIGINAL (NOW ABROGATED) CONTRACT WIHC WOULD HAVE EXPIRED ON JUNE 30, 1978. WHILE CRITCHLOW DID NOT SAY SO, PRESUMABLY THIS CONTRACT WOULD OFFER THE POSSIBILITY OF THE GOP PURCHASING GULF CRUDE FROM ECUADOR.

6. THE GULF OFFICIALS SAID THEY WOULD CONSULT WITH BOTH THE EMBASSY AND THE DEPARTMENT AS THEY PROCEED

IN DEVELOPING THEIR NEW STRATEGY. THEY EXPECT IT BE IN A POSITION TO RETURN TO PERU WITHIN TEN DAYS TO PRESENT THEIR COUNTERPROPOSAL TO GENERAL FERNANDEZ BACA.

7. COMMENT: I BELIEVE THAT GULF HAS LITTLE TO LOSE AND POSSIBLY SOMETHING TO GAIN IN PRESENTING GOP WITH A PACKAGE WHICH IT COULD USE AS BASIS FOR CALCULATING EVENTUAL PAYMENTS. NUMEROUS FOREIGN MINISTRY OFFICIALS, AS WELL AS THOSE IN PETROPERU, HAVE EXPRESSED THE VIEW THAT GULF EXPROPRIATION WAS AN ABERRATION THEY WOULD AS SOON FORGET, AND I THINK THAT A WELL-BALANCED, LOW-KEY COUNTEROFFER MAY SERVE TO MOTIVATE GOP TO FOCUS ON GULF'S PROBLEMS AND MOVE FORWARD WITH PROCESSING OF EXPROPRIATION CLAIM. AN ATTRACTIVE COUNTEROFFER COULD ALSO SERVE TO PROTECT GOP'S FACE FOLLOWING ITS ILL-CONCEIVED EXPROPRIATION OF GULF DEL PERU AND POSSIBLY PERMIT GULF TO CONTINUE A WORKING RELATIONSHIP WITH THE GOP, ALTHOUGH IT WOULD NOT, OF COURSE, CONTINUE TO FUNCTION AS A LOCAL COMPANY PROCESSING LUBE OILS AND OPERATING SERVICE STATIONS.

8. IN REGARD TO LUCAS' REFERENCE TO DISCUSSIONS WITH "L" OFFICIALS IN THE DEPARTMENT CONCERNING THE PRINCIPLE OF REQUESTING COMPENSATION FOR NET MARKET VALUE AS OPPOSED TO MERE BOOK VALUE, I WOULD APPRECIATE RECEIVING ANY BACKGROUND INFORMATION DEPARTMENT MAY HAVE ON THIS IMPORTANT ASPECT OF THE GULF CASE. AFTER FORMULATION OF GULF PACKAGE, I WOULD PROPOSE TO RAISE THIS ISSUE AS APPROPRIATE WITH FOREIGN MINISTRY AND OTHER OFFICIALS, POINTING OUT ADVANTAGE OF PROMPT, REASONABLE, AND ADEQUATE COMPENSATION TO PERU.  
DEAN

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